

General Information

Financial Institutions Subject to Tax:

Sections 40-16-1 through 40-16-8, **Code of Alabama 1975**, imposes an excise tax on every financial institution doing business in Alabama or deriving income from sources within Alabama.

Filing Requirements:

Section 40-16-1, **Code of Alabama 1975**, requires Financial Institutions to file a return with the Alabama Department of Revenue for each taxable period stating gross income and allowable deductions and credits. Penalties will be added for failure to timely file, failure to timely pay, or fraudulent filing.

Consolidated Filing:

Qualified corporate groups as defined in Chapter 16, **Code of Alabama 1975**, shall have the option to file one excise tax return on a consolidated basis or to file separate returns. Qualified corporate groups electing to file one excise tax return on a consolidated basis shall be assessed a fee of \$6,000 for the privilege of filing on a consolidated basis. This election made by filing Form ET-C (**Election and Payment of Fee for Filing a Consolidated Financial Institution Excise Tax Return**) and the annual filing fee must be submitted to the department on or before the due date of the return. No provision is made for refund of this fee and the election to file a consolidated return is irrevocable.

NOTE: Form ET-1 must be completed for each member participating in the consolidation. This information for each member will be accepted in the form of a spreadsheet. The Form ET-1 completed for the consolidation should be clearly marked on its face "Consolidated Return."

Which Form To Use:

FORM ET-1. Financial Institution Excise Tax Return. Financial Institutions must file Form ET-1.

Consolidation/Extension/ Informational Requirements:

FORM ET-C. Election and Payment of Fee for Filing a Consolidated Financial Institution Excise Tax Return. Financial

Institutions electing to file on a consolidated basis must file Form ET-C.

FORM ET-8. Application for Extension of Time for Filing Alabama Financial Institution Excise Return. Form ET-8 may be used to request an extension of up to 3 months for filing a return.

In order for this application to be approved and remain valid, one-half of the estimated tax due must be paid when the form is filed. If at least 50% of the actual tax due on the return is not paid with the application, the extension will be considered invalid and the return will be subject to the penalties for delinquency.

CIVIL PENALTIES. Section 40-2A-11 provides additional penalties for (1) failure to timely file, (2) failure to timely pay, (3) underpayment due to negligence, and (4) underpayment due to fraud.

ELECTRONIC FUNDS TRANSFER. Section 41-1-20 requires the use of Electronic Funds Transfer (EFT) for all single tax payments of \$25,000 or more. Taxpayers must register to use EFT and substantial penalties can be assessed for noncompliance. Call the Alabama Department of Revenue EFT Hotline at (334) 242-0192 (option #7) or 1-800-322-4106 for further information.

General Instructions

How To File:

For this return to be considered complete and properly filed, a complete copy of the appropriate federal return (Form 1120, 1120A, etc.) must be attached. Failure to attach the complete federal return with the necessary supporting schedules may result in the imposition of delinquent penalties.

Period Covered:

File the 2004 return for calendar year 2003 and for fiscal years or short years that end on/before March 31, 2004. Fill in the tax year space at the top of the form.

Signature:

The return must be signed by an authorized officer of the corporation. Enter the date signed and the title of the person whose signature is affixed. If the return is prepared by anyone other than an employee of the taxpayer, enter the signature and identification information of the preparer.

When To File:

ORIGINAL DUE DATE. The return for calendar year 2003 is due on or before April 15, 2004. For fiscal year or short-year taxpayers, the return is due on or before April 15 following the end of the taxable year.

EXTENSION. An extension of time to file the return may be granted up to a maximum of 3 months. Form ET-8 must be filed on or before the due date of the return for the extension to be granted.

Returns or payments bearing a U.S. Postal Service cancellation no later than midnight of the due date (with extensions) will be considered timely filed.

Where To File/Payment of Tax:

Make checks payable to:
Alabama Department of Revenue

Write the corporation's federal employer identification number, the tax form number (Form ET-1), and the tax year on the check.

Tax due and not paid on or before the due date will be subject to interest and penalties as prescribed by law.

Mail return and payment to:
**Alabama Department of Revenue
Financial Institution Excise Tax Section
P. O. Box 327439
Montgomery, AL 36132-7439**

Telephone (334) 353-9448

Specific Instructions

At the top, left-hand corner of page 1 check the applicable box if filing an initial, final, or amended return.

At the top, right-hand corner of page 1 check the appropriate box indicating a calendar-year, fiscal year, or short-year return. Fill in the blanks indicating the beginning and ending dates of the period if the return is for a fiscal year or a short year. Fill in Nature of Business Code.

Business Codes:

- 1 – State Bank
- 2 – National Bank
- 3 – State Savings and Loan Association
- 4 – Federal Savings and Loan Association
- 5 – Real Estate
- 6 – Finance Company—Auto, Appliance
- 7 – Small Loan Company
- 8 – Credit Union
- 9 – Production Credit Association
- 10 – Credit Card Company

If this corporation is included in a consolidated federal income tax return, check the appropriate block and enter the name and federal employer identification number of the common parent corporation.

Check the appropriate filing status. Filing status 3, Separate (Direct) Accounting, should only be used by taxpayers that have received prior permission from the Alabama Commissioner of Revenue.

Consolidated Financial Institution Excise Tax return. Members must have filed form ET-C making the election to file on a consolidated basis.

In the top center block of page 1 enter the corporation's nature of business, its federal employer identification number (FEIN), and its name and mailing address. Below the address enter the telephone number, state of incorporation, and the date of incorporation.

BE SURE TO FILL OUT ALL APPLICABLE LINES ON PAGE 1 even if detailed schedules are attached. Failure to properly complete the return may result in delinquency penalties.

Income

Under §40-16-1, no income attributable to Alabama is excludable from gross income of financial institutions. Those items not classifiable in the categories shown on line items 1 through 4, page 1 should be scheduled and the total entered on line 5.

LINE 1. Enter the amount of interest and dividend income from:

- a. Loans and Discounts
- b. Obligations of the United States Government
- c. Obligations of State and Political Subdivisions

LINE 2. Enter the amount of dividend income (Schedule A, page 2).

LINE 3. Enter the amount of rental income.

LINE 4. Enter the Gain or (Loss) on sale of assets (Schedule B, page 2).

LINE 5. Enter the amount of other income, not previously included in lines 1-4 above.

LINE 6. Enter the amount of total income (lines 1 through 5).

Deductions

LINE 7. Enter the deduction for compensation of officers (Schedule C, page 2).

In the case of proprietorships, no deduction is allowable for the value of services rendered by the proprietor. A reasonable deduction will be allowed for salary paid to a partner active in management of a partnership.

LINE 8. Enter the deduction for salaries and wages of employees.

LINE 9. Enter the deduction for repairs.

LINE 10. Enter the deduction for bad debts (Schedule D, page 2). Section 40-16-1(2)(e) and (h) provide for the deduction of bad debt by the direct charge off method or, in the discretion of the Department of Revenue, the reserve method. Those taxpayers using the direct charge off method should attach a schedule detailing the deduction.

LINE 11. Enter the deduction for rent.

LINE 12. Enter the amount of taxes actually paid in 2003 on Schedule E, page 2. Do not include financial institution excise tax and taxes taken as a credit.

LINE 13. Enter the deduction for interest.

LINE 14. Enter the deduction for contribution. This deduction is limited to 5% of net income without benefit of the charitable contribution deduction.

LINE 15. Enter the deduction for depreciation (Schedule G, page 2).

LINE 16. Enter the deduction for advertising.

LINE 17. Enter the deduction for pension, profit sharing plans, etc.

LINE 18. Enter the deduction for dividends. Section 40-16-1(2)(g) provides for the deduction of certain dividends received. In order to qualify, these amounts must be either (1) paid by a corporation organized under the laws of Alabama, or (2) liquidating dividends. In paragraphs (i) and (j) savings and loan associations and credit unions are given the right to deduct dividends paid on their withdrawable shares.

LINE 19. Enter the amount of any other ordinary and necessary expense not previously included in lines 7 through 18. Explanatory schedules must be attached.

LINE 20. Enter the amount of total deductions (lines 7 through 19).

Calculating Taxable Income

LINE 21. Enter the amount of net income/(loss) (subtract line 20 from line 6).

LINE 22. Enter the net non-business income/(loss) (column E, Schedule K). Net non-business income is a negative amount in computing total apportionable income. Net non-business expense or loss is a positive amount in computing total apportionable income.

LINE 23. Enter the apportionable income (line 21 plus line 22).

LINE 24. Enter the Alabama apportionment factor (line 26, Schedule L).

LINE 25. Enter income apportioned to Alabama (multiply line 23 by line 24).

LINE 26. Enter net non-business income/(loss) (column F, Schedule K) allocated to this state.

LINE 27. Enter Alabama net income (loss)

(line 25 plus line 26).

LINE 28. Enter the amount of Federal Income Tax deduction/(refund) (from line 7, Schedule M).

LINE 29. Enter the Alabama income before Net Operating Loss (NOL) (line 27 less line 28).

LINE 30. Enter Alabama net operating loss deduction (not to exceed taxable income). Attach a supporting schedule showing the amount of net operating loss incurred for each period and the amount of such loss absorbed in each period.

A net operating loss is the excess of allowable deductions over the gross income of a corporation during a taxable year. A net operating loss for a financial institution will be carried back two years, then forward to the eight succeeding taxable years in chronological order.

LINE 31. Enter the Alabama taxable income.

LINE 32. Enter the amount of tax due (6-1/2% of line 31).

LINE 33. Enter the amount of taxes used as credits (Schedule F).

LINE 34. Enter the balance of tax remaining after credits.

LINE 35. Enter the amount of any previous payments.

LINE 36. Enter the balance of tax due with this return or (overpayment).

LINE 37. Enter the amount of interest due on the balance of tax due on line 36 computed from the due date (without regard to extensions) of this return to the date paid. The Alabama interest rate is the same as provided in IRC Section 6621.

LINE 38. Enter the amount of penalty due on this return.

LINE 39. Enter the total amount due with this return (lines 36 through 38).

LINE 40. Enter the amount remitted with this return. Attach remittance made payable to: Alabama Department of Revenue-Excise Tax Section. Be sure to include the taxpayer's federal identification number, the form number (Form ET-1), and the tax year on your remittance.

Instructions For Schedule A

In the appropriate columns, enter the Payor corporation and amount received from Domestic or Foreign corporations. Attach additional schedule if necessary. Enter the total here and on line 2, page 1.

Instructions For Schedule B

In the appropriate columns enter for each asset sold a description, the sales price, original cost, depreciation or amortization and the

Net Gain or (Loss). This total should be entered here and on line 4, page 1.

Instructions For Schedule C

In the appropriate column, enter each officer's name, title, percent of stock ownership (common and preferred) and the amount of compensation. This total should be entered here and on line 7, page 1.

Instructions For Schedule D

In the appropriate columns, for the 6 prior years, enter the amounts of accounts receivable at the end of the year, sales on account, amount added to reserve, amount charged against reserve and the reserve for bad debts at the end of the year. This total should be entered on line 10, page 1.

Instructions For Schedule E

Enter the amounts for taxes actually paid in 2003. This amount should be entered here and on line 12, page 1.

Instructions For Schedule F

Enter the amounts for each category of taxes used as an allowable credit. This total should be entered here and on line 33, page 1.

Instructions For Schedule G

For each depreciable asset, enter the type of property, the date acquired, cost or other basis, prior depreciation, method used in depreciation, life of asset, and the current depreciation. This total should be entered here and on line 15, page 1.

Instructions For Schedule H

Complete the attached balance sheet including amounts at the beginning of the taxable year and the end of the taxable year for assets, liabilities and stockholders' equity.

Instructions For Schedule I

Beginning with net income per books, adjust items as listed to reconcile book income to taxable income.

Instructions For Schedule J

Enter the balance of unappropriated retained earnings at the beginning of the year. Add net income per books and other increases. Subtract any distributions or other decreases. Balance should be the total of unappropriated retained earnings for the taxable year. Enter that amount on line 24, Schedule H.

Instructions For Schedule K

Enter on Schedule K all items of nonbusiness income, nonbusiness loss, and nonbusiness

expense. These items are excluded from apportionable income and are allocated either to Alabama or to another state. See Rule 810-9-1-.05 for a discussion of the classification of income and expense into business and non-business categories and the assignment of nonbusiness items to specific jurisdictions.

Beside the line number in Schedule K, enter the item description. In Column A enter the total amount of gross income or loss to be excluded from apportionable income. In Column B enter the amount of gross income or loss allocable to Alabama.

Enter total nonbusiness expense in Column C and any allocable to Alabama in Column D. Nonbusiness expense may exceed nonbusiness income and in fact may be present when there is no nonbusiness income. Expenses which are not directly identifiable as business or nonbusiness must be prorated. The method for prorating interest expense is to multiply total interest expense deducted on the federal return by a fraction, the numerator of which is the average amount invested in nonbusiness assets at cost and the denominator of which is the average amount invested in total assets at cost. Investments originally acquired by means of stock for stock swaps may be eliminated from both the numerator and the denominator of the nonbusiness interest expense proration factor.

Subtract Column C from Column A, and enter the remainder in Column E. Subtract Column D from Column B, and enter the remainder in Column F.

Add the amounts in Columns E and F, and enter the totals on line 2. Carry the total of Column E to page 1, line 22. Carry the total of Column F to page 1, line 26.

Instructions For Schedule L

The financial institution's business activity in Alabama is represented by the apportionment percentage. The apportionment factor consists of the average of three other factors: property, payroll, and receipts. See Rule 810-9-1-.05 for detailed instructions regarding the items to be included in the numerator and the denominator of each of these factors.

Property Factor:

In the appropriate columns, enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business (apportionable) income.

LINE 1. Loan and credit card receivables.

LINE 2. Premises and fixed assets.

LINE 3. Other real estate owned.

LINE 4. Other real and tangible personal property.

LINE 5. Enter in each column the totals of lines 1 through 4.

LINE 6. Enter in the appropriate column the average (beginning of year plus end of year divided by 2) value of property in Alabama and Everywhere.

LINE 7. In the Beginning of Year columns, enter the amount of expense for the rental of real or tangible personal property used in the production of business income in Alabama and Everywhere. Annualize for short-period returns. Multiply the annual rent expense by 8, and enter the result in the End of Year column. This is the capitalized rental value.

LINE 8a. Add the amounts on lines 6 and 7 in the End of Year column for Alabama.

LINE 8b. Add the amounts on lines 6 and 7 in the End of Year column for Everywhere.

LINE 9. Divide the amount on line 8a by the amount on line 8b, and enter the percentage on line 9. This is the ALABAMA PROPERTY FACTOR.

Payroll Factor:

LINE 10a. Enter the amount of wages or other compensation paid to employees for the production of business in Alabama.

LINE 10b. Enter the amount of wages or other compensation paid to employees for the production of business income Everywhere. (Include officers' salaries.)

LINE 10c. Divide the amount on line 10a by the amount in line 10b and enter the percentage on line 10c. This is the ALABAMA PAYROLL FACTOR.

Receipts Factor:

LINE 11. Enter in the appropriate columns the receipts from lease or rental of real property.

LINE 12. Enter in the appropriate columns the receipts from lease or rental of tangible personal property.

LINE 13. Enter in the appropriate columns the amounts of interest from loans secured by real property.

LINE 14. Enter in the appropriate columns the amounts of interest from loans not secured by real property.

LINE 15. Enter in the appropriate columns the net gains from the sale of loans.

LINE 16. Enter in the appropriate columns the amounts of interest from credit card receivables and fees charged to card holders.

LINE 17. Enter in the appropriate columns the net gains from the sale of credit card receivables.

LINE 18. Enter in the appropriate columns the amounts of credit card issuer's reimbursement fees.

LINE 19. Enter in the appropriate columns the receipts from merchant discount.

LINE 20. Enter in the appropriate columns the amounts of loan servicing fees from loans secured by real property.

LINE 21. Enter in the appropriate columns the amounts of loan servicing fees from loans not secured by real property.

LINE 22. Enter in the appropriate columns the amounts of interest, dividends, net gains, and other income from investment and trading assets and activities.

LINE 23. Enter in the appropriate columns the receipts of sales of tangible personal property.

LINE 24. Enter in the appropriate columns the amounts of other business receipts, and identify the nature of such receipts and their location in the federal return.

LINE 25a. Total the Alabama column for lines 11 through 24.

LINE 25b. Total the Everywhere columns for lines 11 through 24.

LINE 25c. Divide the amount on line 25a by the amount on line 25b, and enter the percentage on line 25c. This is the ALABAMA RECEIPTS FACTOR.

LINE 26. Divide by 3 the sum of percentages on lines 9, 10c, and 25c. Enter resulting percentage here and on line 24, page 1. This is the Alabama apportionment percentage (factor).

Distribution Information

In accordance with **Code of Alabama 1975**, §40-16-6, a financial institution which conducts its business in more than one municipality or in more than one county in Alabama must report in detail the percentage of its total business in the state conducted in each such municipality and in each such county.

Instructions for Schedule M

This schedule should be used to compute the amount of the financial institution's federal income tax deduction allowable for/apportioned to Alabama and to offset that deduction with the amount of refund, if any, received in that year.

If this financial institution is a member of an affiliated group which files a consolidated federal return, check the appropriate block to indicate the election made under IRC §1552. Attach a copy of the workpaper showing the computations made in allocating the consolidated tax liability to the separate members in the affiliated group.

LINE 1. Taxpayers filing separate federal returns should enter on line 1 the amount of payment forwarded to the Internal Revenue Service (or share of the payment forwarded to the Internal Revenue Service if included in a consolidated return).

LINE 2. Enter the amount of Alabama income from line 27, page 1.

LINE 3. Enter the amount of total net income adjusted to Alabama basis from line 21, page 1.

LINE 4. If the amounts on line 2 and 3 are greater than zero, divide the amount on line 2 by the amount on line 3. If the amount(s) on line 2 and/or line 3 are zero or less than zero, enter zero. This is the FEDERAL INCOME TAX APPORTIONMENT PERCENTAGE.

LINE 5. Multiply the amount of federal income tax attributed to this financial institution as shown on line 1 by the FEDERAL INCOME TAX APPORTIONMENT PERCENTAGE as shown on line 4. Enter the result on line 5.

LINE 6. If a financial institution takes a deduction for federal income tax on its Alabama return and in a later year all or a portion of the tax claimed as a deduction is refunded by the Internal Revenue Service, the taxpayer is required to recognize the refund on its Alabama return to the extent of the benefit received in the prior year.

Cash-basis taxpayers recognize the refund in the year in which it is made by the Internal Revenue Service.

Multistate taxpayers filing separate federal returns (not requiring allocation of the refund among members of a consolidation) should apportion the refund to Alabama using the following steps:

(1) If the total received results from a carryback to more than one previous year, identify each of the years to which the carryback is applied and designate the amount attributable to each year.

(2) Multiply the amount of refund attributable to each year by the same percentage used to apportion income to Alabama on that year's return as last reported or audited.

(3) Add the results obtained in Step 2 for all years.

(4) Enter the total on line 6.

A multistate taxpayer filing its federal return as a member of a consolidated group must apportion the refund to each member of the group at the same ratio that the tax deduction being refunded was originally apportioned. See Rule 810-3-35-.01(1)(b)4.

After the amount of refund attributable to the separate corporations has been determined for each year, the four (4) steps provided above for corporations filing separate federal returns may be followed in determining the amount of federal income tax refund to be entered on line 6.

LINE 7. Subtract line 6 from line 5. If line 5 is larger than line 6, enter the net federal income tax deduction on line 7 and carry to line 28, page 1.

If line 6 is larger than line 5, enter the net federal income tax refund on line 7 and carry to line 28, page 1.